

Investment Office Roadmap

Organization Systems & Controls

Quarterly Target Operating Model Status Report

Janine Guillot, COIO

December 12, 2011

Roadmap Objectives

- The 2011-12 Roadmap consists of six strategic priorities:
 - Organization Systems and Controls
- Organization Systems and Controls Objective: Design, develop and implement a robust, integrated operating model that minimizes complexity, improves transparency, and strengthens processes, systems, governance & controls

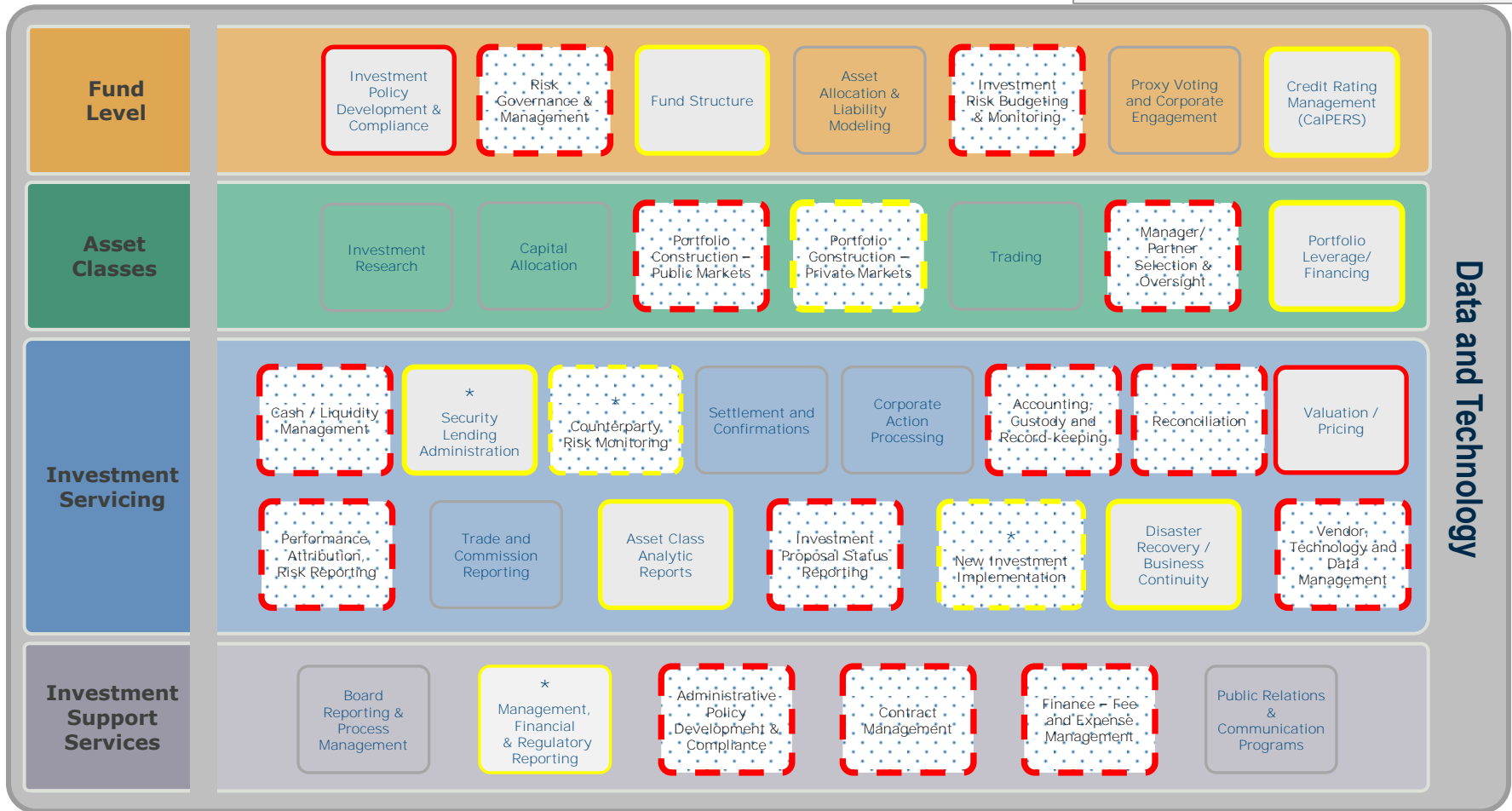


Organization, Systems & Controls Today (FROM)	(TO) Vision
Risk exposure due to inefficient legacy, asset-based “cottage industry” approach geared toward specialized, siloed investment strategies	Efficient, scalable, best-of-breed operating model with clear understanding of controls and risks
Fragmented & incomplete data & infrastructure; impossible to aggregate information for timely investment management & decision making	Integrated data & systems for efficient, timely decision making driving superior investment performance
Unnecessary complexity for the value derived	Appropriate blend of simplicity & complexity
Obscured accountability and unclear roles	Transparent organization structure, roles & processes for clear accountability

INVO Hot Spots - Key Focus Areas

Target Operating Model

Key
 Red – High Priority, Near Term Initiatives (2011)
 Yellow – Medium Priority Initiative
 Others – Business as Usual or Low Priority
 Patterned & Dash Border – Active Work in Progress
 * – Change from prior report



Roadmap – Major Initiatives: Sequence and Status

Initiative	Initiative Status	2011				2012				2013			
PM2: “Public Markets Portfolio Management” (formerly IEPC)	R												
Custody, Fund Accounting & Performance	C												
Investment Risk Management	G												
Contract & Vendor Management	G												
Private Assets IBOR & Accounting	G												
Finance / Expense Management	R												
Administrative Policies & Monitoring	G												
Manager Selection & Monitoring	A												
Plan Accounting & Reconciliation	A												
Operating Risk Governance & Management	G												
Fund Structure	A												
Performance Attribution	N/A	*	*	*	*	*							
Cash / Liquidity Management	N/A	*	*	*	*								
Investment Policy Development & Monitoring	N/A												
Technology Management	N/A	*	*	*	*	*	*	*	*				
Pricing / Valuation	N/A	*	*	*	*	*	*	*	*				
Records Retention & Document Management	N/A				*								
Data Services (Governance)	N/A	*	*	*	*	*	*	*	*				
Public Records Request Procedures	N/A			*									
CRM - Salesforce Expansion	N/A												

* incremental and / or targeted work underway

N/A: Major Initiatives not started

G

On Target

A

Needs Attention

R

Major issues will impact Initiative timeline

C

Completed Initiative

Significant Status or Sequence Changes Since Last Report:

Operating Committee Reviewed and Recommended the following sequence and expected timelines changes:

Custody, Fund Accounting & Performance

- Status of initiative changed to completed due to implementation of master custody services, Sacramento office service model and T+1 daily hard close

Private Assets IBOR & Accounting

- Moved up priority to align with AIM strategic plan; added 3 months to length of initiative to better reflect size of project

Plan Accounting & Reconciliation

- Added Plan Accounting & Reconciliation to the Roadmap of major initiatives for Target Operating Model in alignment with enterprise Financial Office project

Fund Structure

- Extended the length of the initiative to reflect the decision to sequence start of Legal Structure project after the completion of Finance/Expense Management and Plan Accounting and Reconciliation work

Records Retention & Document Management

- Reduced the priority of initiative to enable increased priority for Private Assets IBOR & Accounting project, Plan Accounting & Reconciliation and Finance/Expense Management

Investment Policy Development & Monitoring

- Extended initiative timeline by six months to reflect Personal Trading Policy system implementation. Launch of Investment Policy monitoring was deferred pending hiring of staff

Data Services (Governance)

- Reduced priority of initiative to enable increased priority for Private Assets IBOR & Accounting project, Plan Level Reconciliation and Finance/Expense Management

Significant Status or Sequence Changes Since Last Report (cont.):

Explanation of Projects in Red Status	
PM ² Public Markets Portfolio Management	<ul style="list-style-type: none"> The PM2 Project has shifted focus to evaluating an alternative solution approach that includes the combination of upgrading/expanding the use of the existing Global Equity order management platform, as well as engaging middle office processing services The project team is now well into to the due diligence analysis process associated with the fit of this alternative solution to CalPERS requirements, expecting to make a solution decision and initiate contract development by the end of 2011
Finance / Expense Management	<p>To enable the Investment Office to track and report on Investment expenses in an automated manner it requires business process re-engineering and a technology solution. Progress has been made in the following areas:</p> <ul style="list-style-type: none"> Completed analysis and identified a technology solution to pilot an effort to effectively track investment expenses Obtained approval to recruit investment officer position to lead financial reporting and reengineering effort. Recruitment is in progress. Aligned initiative with enterprise Finance Office project

Major Accomplishments Since Last Update:

Target Operating Model Initiatives	
Custody, Fund Accounting & Performance	
<ul style="list-style-type: none"> ✓ Completed negotiation of Service Level Agreements, Key Performance Indicators and Contract Amendment ✓ Implemented Governance model with State Street ✓ Completed Master Custodian project close out 	
Investment Risk Management	
<ul style="list-style-type: none"> ✓ Completed BarraOne system test and workflow walk-through ✓ Completed BarraOne Application Training for Investment Office Risk Unit ✓ Implemented BarraOne fund level monthly reports for Investment Strategy Group 	
Private Assets IBOR & Accounting	
<ul style="list-style-type: none"> ✓ Completed project planning, research and analysis to identify clear scope, objectives and business concept paper ✓ Procured project manager 	
Manager Selection & Monitoring	
<ul style="list-style-type: none"> ✓ Completed redesign of Automated Real Estate Investment System (AREIS) to support Real Estate Strategic plan 	
Operating Risk Governance & Management	
<ul style="list-style-type: none"> ✓ Completed recruitment for Head of Investment Compliance & Operational Risk, Interim Operating Risk Officer and Investment Compliance Manager ✓ Implemented Operating Event Escalation Process and began reporting to Investment Office Operating Committee 	
Fund Structure	
<ul style="list-style-type: none"> ✓ Released Multi-Strategy Index Fund RFP on Oct 31, 2011 	

Key Deliverables Over the Next 6 Months:

Target Operating Model Initiatives	
Public Markets Portfolio Management (PM2)	
<input type="checkbox"/>	Complete contracting process for Portfolio Construction and solution for Global Equity IBOR
<input type="checkbox"/>	Develop implementation plan to transition hosting of equity order management system to vendor
Investment Risk Management	
<input type="checkbox"/>	Complete parallel testing and last phase of BarraOne application training for asset class staff
<input type="checkbox"/>	Archive risk data and decommission legacy risk system
Contract & Vendor Management	
<input type="checkbox"/>	Complete Standard Contract Terms and Conditions Rapid Results Project
Private Assets Investment Book of Record (IBOR) & Accounting	
<input type="checkbox"/>	Start detailed business requirements gathering effort
<input type="checkbox"/>	Launch enterprise project governance process
Administrative Policies & Monitoring	
<input type="checkbox"/>	Complete Review on Role of General Pension Consultant
<input type="checkbox"/>	Complete Operational Delegation and Board Agenda Schedule Rapid Results Projects
Manager Selection & Monitoring	
<input type="checkbox"/>	Charter Rapid Results team to develop manager monitoring and selection standards across asset classes
Finance / Expense Management	
<input type="checkbox"/>	Implement Financial Reporting and Expense Management pilot solution
Fund Structure & Fund Expenses	
<input type="checkbox"/>	Complete Multi-Strategy Index Fund RFP process to segregate assets that cannot be pooled in a group trust.
Pricing / Valuation	
<input type="checkbox"/>	Issue Valuation Management Services RFP for Real Assets Appraisal Program